

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7157

BILL NUMBER: HB 1273

DATE PREPARED: Feb 18, 2002

BILL AMENDED: Feb 14, 2002

SUBJECT: Family College Savings Plan.

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FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill renames the Family College Savings Plan the College Choice Plan. The bill conforms definitions used in the Education Savings Program law to recent changes to the federal enabling statute. The bill also removes provisions imposing a maximum account balance and a penalty for a distribution that is not used to pay qualified higher education expenses. The bill also repeals the following: (1) several definitions; (2) a statute concerning the investment policies of the program; (3) the requirement that contributions be made in cash only; and (4) the prohibition on an account owner directing the investment of the contributions. The bill also eliminates the individual Adjusted Gross Income Tax exemption for Individual Development Account roll overs to a college savings account.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) The bill adopts a number of federal law provisions relating to the operation of federally qualified state tuition credit programs and education savings account plans. These changes include the following:

(1) The bill adopts the federal definition of "qualified education expenses" for which college savings plan distributions may be utilized. This definition is the same as the current state definition, except that the federal definition was recently changed to include expenses of special needs students which are necessary in connection with the student's enrollment and attendance at an institution.

(2) The bill eliminates the requirement that contributions to the education savings plan be made in cash. The bill also eliminates the prohibition on a savings account owner directing the investment of the contributions. These provisions are no longer necessary for qualification of education savings plans under federal law.

(3) The bill eliminates the requirement that the Indiana Education Savings Authority impose a penalty of 10% on the earnings portion of distributions not used exclusively for the qualified higher education expenses of the student beneficiary. New federal law imposes a 10% tax on the any distribution not used for qualified expenses of the student beneficiary.

(4) The bill adopts the federal definition of a “rollover distribution” which includes certain transfers when there is a change in beneficiary of the account as is allowed under current state statute. Adoption of federal law would expand the definition of a rollover to include one transfer per year between one education savings program to another without a change in the account beneficiary. This would include transfers between state-operated education savings plans and prepaid tuition plans; or tuition plans that may be operated by higher education institutions.

Individual Development Accounts: The bill also eliminates current law that allows money in an Individual Development Account (IDA) to be rolled over into a Family College Savings Account. Under current law, IDA money used for this purpose is exempt from state Adjusted Gross Income Tax. The precise impact of this change is not known.

Current law allows a person to establish an Individual Development Account (IDA) if that person receives Temporary Assistance to Needy Families (TANF) or has an income less than 175% of the federal poverty level. Under current law, these accounts receive a three-to-one match of state funds. The program limits the state match to \$900 per account. Under current law, money withdrawn from an IDA is exempt from the state Adjusted Gross Income Tax if it is used for the following:

- (1) To pay costs at an accredited institution of higher education, a vocational school, or an accredited or licensed training program, including tuition, laboratory costs, books, computer costs, and other costs associated with attendance.
- (2) To purchase a primary residence or to reduce the principal amount owed on a primary residence.
- (3) To begin or purchase a business or expand an existing business.
- (4) To rollover into an Indiana Family College Savings Account.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Education Savings Authority, Department of State Revenue.

Local Agencies Affected:

Information Sources: